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# The Effect of Labor, Export, and Government Expenditure on Economic Growth

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## Abstract

The purpose of this study is to explain the effect of labor on economic growth, the effect of exports on economic growth, the effect of government expenditure on economic growth, the effect of labor, exports, and government expenditure on economic growth. The variables used in this study are labor, exports, and government expenditure. The method used in this research is quantitative method. The type of data used in this study is secondary data in the form of times series data from 1990-2020 which is sourced from Badan Pusat Statistik (BPS). The results showed that (1) labor has a positive and significant effect on economic growth, (2) Exports has positive and significant effect on economic growth (3) Government expenditure has positive and significant on economic growth (4) Labor, exports, and government expenditure together affect on economic growth 96.1%.

**Keywords:** Labor, Export, Government Expenditure, Economic Growth.

## Introduction

One of the important benchmarks in determining the success of economic development is economic growth. Economic growth is a process, not an economic picture in a certain period, there are developments or changes and the use of time (Boediono, 1992). Economic growth shows the extent to which economic activity will generate additional income for the community within a certain period, because basically government expenditure activity is a process of using expenditure variables to produce output, which in the process will produce services for development. However, high economic growth still leaves problems that must be faced in the development of a country. One of the realities of development is the creation of development gaps, namely the occurrence of differences in growth rates between regions which causes a gap in prosperity and progress between regions (Mudrajat Kuncoro, 2003). Quick economic growth will cause inequality in income distribution, this is because it does not pay attention to whether the growth is greater or less than the population growth rate or changes in economic structure. To obtain high economic growth, the role of the government is needed, namely by carrying out appropriate policies that can spur economic growth in a country, one of which is government expenditure.

According to Sukirno (2000), Government expenditure is part of fiscal policy, which is a government action to regulate the course of an economy by determining the amount of government revenues and expenditures each year. The purpose of this fiscal policy is to stabilize prices, output levels, as well as employment opportunities and spur or encourage economic growth. Government expenditure is measured by the total routine expenditure and development expenditure allocated in the state budget. The greater the productive government expenditure, the greater the level of the economy of a region. Anaman (2004), states that government spending that is too small will harm economic growth, proportional government spending will increase economic growth and wasteful government consumption spending will hamper economic growth. In general, government spending has a positive impact on economic growth as stated in research conducted by Lorena (2014) in her research that government expenditure has an impact and is proven to stimulate economic growth. Chude (2013) in his research states government expenditure has positive effect on economic growth and very important instrument for economic growth in developing countries.

Another factor that determines the success of growth in the economic field is human resources in this case is the workforce. Human resources are both the subject and the object of development covering the human life cycle. Economic growth does not only depend on human resources, but also their efficiency (Jhingan, 2004). The low quality of human resources will have an impact on low productivity in the world of work or those involved in the production process. According to Todaro (2002) population growth and the growth of the Labor Force are considered as one of the positive factors that spur economic growth. Labor participation is one of the factors that have a significant effect on economic growth in Pakistan (Sahid, 2014). Research conducted by Jajri (2010) states that the quality of labor on labor productivity affects the economic growth of a country.

Sitindaon (2013) in his research suggests that labor has a positive and significant effect on economic growth, which means that an increase in the number of labor will encourage increased economic growth. The more people who are involved in the world of work, will cause the goods and services produced by the community to increase so that the income of a country increases and this will have an impact on the economic growth of a country. Labor is the driving force for the wheels of development that spur economic growth and affect the output of a region. One of the main themes in the employment sector is labor absorption. Employment is one of the indicators to assess the success of a country's economic development. This becomes very important because the greater the absorption of labor, the progress of the community's economic activities will be better. The ideal condition of economic growth on labor growth is when economic growth is able to change the use of labor in a larger way (Dimas, 2009). One of the problems regarding employment in Indonesia is the imbalance between job seekers and the number of available fields. From the data that the researchers found, it can be seen that the size of the labor in Indonesia can not be fully absorbed by the existing job opportunities, because the number of existing labor is not balanced with the availability of job opportunities.

In addition to labor, another factor that influences economic growth is exports. Kim & Lim (2005), Bruckner & Lederman (2012), Adeleye (2015), stated that exports affect economic growth. In Indonesia, it seems that there are still problems related to exports. It is because exports are a form of international trade and are different from domestic trade. Domestic trade that occurs in Indonesia almost does not have any obstacles. This is different from international trade. One of the things that make international trade unable to run smoothly is the exchange rate or commonly known as the exchange rate which results in low exports and has an impact on low economic growth.

From this explanation, the author is interested in studying the extent to which the influence of labor, exports, and government expenditure on economic growth with the aim of explaining the effect of labor on economic growth, the effect of exports on economic growth, the effect of government expenditure on economic growth, the effect of labor, exports, and government spending on economic growth.

## **Method**

The type of data used in this study is secondary data in the form of times series data for 1990-2020 which is sourced from the Badan Pusat Statistik (BPS) in Indonesia. The variables in this study consist of independent variables including labor, exports and government expenditure, while economic growth is the dependent variable.

Data processing in this study uses quantitative analysis. Quantitative analysis is used to see whether the independent variables have an effect or not on economic growth by using a linear regression analysis model. Before performing linear regression, the classical assumption test was first tested, namely; multicollinearity test and autocorrelation test to obtain data analysis results that meet the test requirements. If the data has met the requirements, it will be continued with hypothesis testing using regression testing.

## Result and Discussion

### 1. Classic Assumption Test

To obtain data analysis results that meet the test requirements, this test uses classic assumption test consisting of:

#### 1.1. Multicollinearity Test

Multicollinearity test was used to test whether the regression model found a strong correlation or relationship between the independent variables. To see multicollinearity, can look at the VIF value. If the VIF value is more than 10 then multicollinearity occurs, otherwise if the VIF value is less than 10 then it is free from multicollinearity.

Table 1: Multicollinearity Test Results

Tolerance	VIF
.194	5.150
.715	1.399
.217	4.603

From these results, it can be seen that there is no independent variable that has a tolerance value of less than 10%, which means that there is no correlation between independent variables whose value is more than 95%. The results of the calculation of the variance inflation factor (VIF) also show the same thing that there is no one independent variable that has a VIF value of more than 10. So, it can be concluded that there is no multicollinearity between independent variables in the regression model.

#### 1.2. Autocorrelation Test

The autocorrelation test is used to test whether in the linear regression model there is a correlation between the confounding error in period  $t$  and the confounding error in the previous period ( $t-1$ ). To see whether there is a correlation, you can do the Durbin Watson test.

Table 2: Autocorrelation test results

R Square	Adjusted R Square	Durbin-Watson
.965	.961	1.727

The results of the data processing carried out showed that the dw test with  $n$  of 30 and  $k = 3$  obtained the values of  $d_l = 1.214$  and  $d_u = 1.650$ . Dw count is 1.727 so that the calculated dw is in a position between  $d_u$  to  $4-d_u$  as follows:  $d_u < dw < 4-d_u$  i.e.,  $1.650 < 1.727 < 4-d_u$  then the autocorrelation coefficient is equal to zero. That is, there is no autocorrelation.

#### 1.3. Hypothesis Test

After the classical assumption test was carried out, then the data was declared not to have multicollinearity and heteroscedasticity, so it was possible to test the hypothesis using multiple linear regression analysis. Hypothesis testing was carried out to see whether or not there was an effect of exports, labor, and government spending

partially and simultaneously. The results of the regression tests that have been carried out using the SPSS program are as follows:

Table 3: Result of Regression Analysis

Variable	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
<b>Export</b>	1.651	.165	10.001	.000
<b>Labor</b>	.085	.135	2.631	.034
<b>Government Expenditure</b>	.634	.347	1.829	.043

From the table above, the export regression coefficient is 1.651. This shows that every 1% increase in exports will be followed by an increase in economic growth of 1.651 with the assumption that other factors are constant. The results show that the t count for exports is greater than the t table, namely  $10.001 > 1.697$  which indicates that partially exports have a significant effect on economic growth. This calculation is in line with the hypothesis stated by Taufik (2014), Saad (2012), and Bakari (2017) which states that exports have positive effect on economic growth. This shows that exports are one of the important variables to support economic growth in a country.

The labor regression coefficient is 0.085. This shows that every 1% increase in labor will be followed by an increase in economic growth of 0.085 with the assumption that other factors are constant. The results show that the t count for labor is greater than the t table,  $2,631 > 1,697$  which indicates that partially labor has a significant effect on economic growth. This is in line with the research conducted by Elisabeth Bawuno (2015) that labor affects economic growth. Research conducted by Sayekti (2009) also states that labor has an influence on economic growth in Indonesia. This is also in line with the research conducted by Korkmaz that labor has a relationship with economic growth, both of which have a reciprocal relationship with one another.

The government expenditure regression coefficient is 0.634. This shows that every 1% increase in government expenditure will be followed by an increase in the economic growth of 0.634 with the assumption that other factors are constant. The results show that the t count for labor is greater than the t table,  $1,829 > 1,697$  which indicates that partially government expenditure has a significant effect on economic growth. The results of this study are in line with research conducted by Haryanto (2013) which states that government expenditure affects economic growth in Indonesia. This is also in line with research conducted by Aregbe (2015), Chipaumire (2014), Torki (2015) that government expenditure affects economic growth in a country. This shows that government expenditure is one of the important factors that affect the economic growth of a country.

Table 4: Result of Simultaneous Effect

Model	R	R Square	Adjusted R Square	F	Sig.
<b>1</b>	.982 <sup>a</sup>	.965	.961	36.396	.000 <sup>a</sup>

From the results of the F test in table 4, show that F count is greater than the F table, namely  $36.396 > 3.35$ , which indicates that exports, labor and government expenditure together affect on economic growth.

## Conclusion

From the results of the analysis that has been carried out by researchers, it can be briefly concluded that government spending, exports and labor partially or simultaneously affect economic growth. This means that the greater the export, labor and government spending, the greater the economic growth.

Suggestion

- a. The government should be able to create new jobs that can reduce unemployment. With more people working or productive people, later on, economic growth will also increase. In addition to opening new business fields, the government should also be able to increase labor productivity through increasing the existing budget allocation by providing skills training for workers and expanding job opportunities so that output increases and in the end can spur economic growth in Indonesia.
- b. The government can expected to optimize the use of government expenditure for infrastructure development activities and increase capital expenditures to increase economic growth
- c. In the export sector, the government is expected to encourage export activities in Indonesia by reducing high costs, simplifying export document licensing, improving infrastructure in the trade sector, facilitating the flow of goods distribution and increasing domestic market security so that economic growth in Indonesia increases.

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